AMENDED IN ASSEMBLY MAY 27, 2011

AMENDED IN ASSEMBLY MARCH 21, 2011

CALIFORNIA LEGISLATURE—2011–12 REGULAR SESSION

ASSEMBLY BILL No. 38

Introduced by Assembly Member Bradford

December 6, 2010

An act to add Division 18 (commencing with Section 40000) to the Financial Code, relating to banking development districts.

LEGISLATIVE COUNSEL'S DIGEST

AB 38, as amended, Bradford. Banking development districts.

Existing law provides for various programs and activities in the development of economic opportunities for businesses in the state. The California Small Business Financial Development Corporation Law establishes small business financial development corporations and provides for their regulation by the Business, Transportation and Housing Agency. Existing law, the Banking Law, provides for the regulation of banks by the Department of Financial Institutions.

This bill would create a Banking Development District Program, within the department, that would encourage the establishment of banking branches in designated geographic locations where there is an underserved community, as defined. The bill would require the department to provide information on the Banking Development District Program to the Treasurer and would authorize the Treasurer to utilize the Banking Development District Program when promoting the Treasurer's Time Deposit Program. The bill would require the department to adopt rules and regulations for the establishment and maintenance of banking development districts ~~and to evaluate and~~

~~approve applications for designation of banking development districts~~. The bill would ~~require~~ *authorize* the department to ~~develop and provide certain incentives to banks, as defined, located in a banking development district. The bill would also require the department to establish and post on its Internet Web site a performance review process for the program~~ *work with local agencies and economic development officials to identify local incentives for banks participating in the Banking Development District Program*, as specified.

Vote: majority. Appropriation: no. Fiscal committee: yes. State-mandated local program: no.

The people of the State of California do enact as follows:

SECTION 1. The Legislature finds and declares all of the following:

(a) Too many Californians are disconnected from the financial mainstream. National estimates show that 10 percent of households, including nearly one-quarter of the minority population, are "unbanked," meaning they lack a basic checking or savings account. In California, 12 percent of adults do not have a checking or savings account, according to the United States Census. Recent market research indicates that Fresno and Los Angeles have the second and third highest percentages of unbanked residents in the country. In San Francisco, the Brookings Institution found that one in five adults, and half the city's African Americans and Latinos, do not have bank accounts. The unbanked are most likely to be people who are less educated and have lower incomes.

(b) The unbanked poor pay more to conduct their financial lives. Utilizing check cashing outlets and money order services to pay bills and expenses can have costly side effects as the result of fees and service charges.

(c) Families without accounts often do not have a safe place to keep their money. They may walk around with large amounts of cash in their pockets, or keep it at home in a coffee can. Robberies can be more prevalent around check cashing outlets. A burglary or fire could cost them their life's savings in a matter of moments.

(d) Lower income households often pay more for financial services. According to a recent Brookings Institution study, a full-time worker without a checking account could potentially save as much as $40,000 during his or her career by relying on a lower cost checking account instead of check cashing services. As a result, without a checking account or lower cost checking account, lower income families have added difficulty saving for and investing in wealth-building assets, the investments they do make are too often not in their best financial interest, and business opportunities in lower income markets are unduly depressed.

(e) A bank account is also the first step to financial security and asset building for many families. A bank account helps people take the first step onto this path. Without an account, it is much more difficult to get well-priced car loans, credit cards, or mortgages, which are the exact financial tools needed to climb up the economic ladder. Many families stay stuck on a different and more expensive path, going to pawn shops, payday lenders, and rent-to-own stores.

(f) While financial institutions may see the long-term business potential of underserved areas, they may have a short-term concern that it would take a number of years before they can attract enough retail deposits to become viable. Those concerns are magnified by the fact that lower income workers often need to use banking services in off-business hours because they work in multiple jobs, making it more difficult for banks to attract customers with standard business practices.

(g) In 1999, the State of New York established a Banking Development District Program and made available a range of state and city incentives to participating financial institutions. The incentives provided through the program aim to help banks get over short-term obstacles to profitability, enabling them to branch into neighborhoods with long-term business potential, and better serve low-income consumers with existing bank branches.

(h) It is the intent of the Legislature in enacting this act to create a Banking Development District Program to spur increased and enhanced banking services in underserved communities that will spur greater financial inclusion and promote local economic development. The desired outcome is that more Californians will enter the financial mainstream and build savings and wealth through participating banks' offerings and marketing of reasonably priced transactional, loan, and credit products.

SEC. 2. Division 18 (commencing with Section 40000) is added to the Financial Code, to read:

DIVISION 18. BANKING DEVELOPMENT DISTRICT PROGRAM

40000. The Banking Development District Program is hereby created in order to encourage the establishment of banking branches that provide needed products and services in specifically designated geographic locations where there is an underserved community. These designated locations shall be known as banking development districts. Financial institutions may seek to participate in the program to do either of the following:

(a) Open a new outlet in an area designated as a banking development district.

(b) Develop and market a new product line or group of services in an existing outlet in an area that is designated as a banking development district.

40001. For purposes of this division, the following definitions shall apply:

(a) "Bank" refers to any commercial bank, savings bank, savings association, or credit union.

(b) "Unbanked" refers to a person who lacks both a basic checking account and a savings account.

(c) "Underbanked" refers to a person who has a bank account but is not fully integrated in the financial mainstream.

(d) "Underserved community" is a remote location or impoverished area that lacks banking services commensurate with the services provided to higher income areas with a population of similar size.

(e) "Banking development district" is a specifically designated geographic location comprising an underserved community that has been designated as such by the department pursuant to this division.

(f) "Local agency" means a city, county, whether general law or chartered, city and county, or town.

(g) "Department" means the Department of Financial Institutions.

40002. (a) The Banking Development District Program shall be established within the department.

(b) The department and local agencies may compile a list of underserved communities or regions that lack a concentration of banks and services in order to provide banks with a clear demonstration of those areas that are in the most need.

(c) The department shall provide information on the Banking Development District Program to the Treasurer and the Treasurer may utilize the Banking Development District Program when promoting the Treasurer's Time Deposit Program. The Treasurer may take into consideration banking development district areas as a criterion when authorizing participation by financial institutions in the Time Deposit Program.

~~(d) In order to participate in the Banking Development District Program, a local agency, in conjunction with a bank, shall submit an application to the department for the designation of an underserved community as a banking development district.~~

~~(e) The application shall include, but not be limited to, all of the following components:~~

~~(1) Clearly define the current and anticipated bank product and service needs of the community.~~

~~(2) Demonstrate that these needs are not currently being met by existing institutions, including, in particular, their branches in the community.~~

~~(3) Demonstrate that by coming into the community, or introducing and effectively marketing additional product lines or services suited for lower income consumers in an existing branch, the bank in question is prepared to specifically meet the community needs.~~

~~40003. The department shall set forth the selection criteria to evaluate a local agency's application. The selection criteria shall aim to satisfy the following:~~

~~(a) Result in needed and responsible bank products and marketing of those products to local consumers.~~

~~(b) Be flexible and allow for differences in local markets.~~

~~(c) Encourage safety and soundness.~~

~~40004. The department shall evaluate and approve applications and designate banking development districts with an emphasis on evaluating the extent to which the bank is prepared to offer and to market products suited for lower income consumers, including those products that accomplish the following:~~

~~(a) Help unbanked Californians open starter accounts. These accounts shall have features to help people overcome barriers that~~

~~may have prevented them from opening accounts. Some options to help people open starter accounts may include the following:~~

~~(1) “Second Chance” type features for clients who are listed on Chex Systems or similar databases.~~

~~(2) No monthly balance requirements.~~

~~(3) Limited low-cost overdraft protection plans.~~

~~(b) Build financial literacy of community members.~~

~~(c) Provide effective ways to help low-income consumers build savings.~~

~~(d) Provide effective ways to help low-income consumers build or improve a credit record.~~

~~(e) Provide competitively priced mortgages and auto loans.~~

~~(f) Offer microloans and microlending products and services.~~

~~(g) Provide a range of well-priced loans and other products for small businesses.~~

~~(h) Provide specialized marketing to inform community members about the products.~~

~~(i) Provide specialized training of staff, including both frontline and customer service staff, to meet the needs of community members.~~

~~40005. The department shall develop and provide a range of incentives to help banks overcome short-term costs that prevent them from offering products and services that have long-term business potential. The incentives shall be all of the following:~~

~~(a) Valuable to banks.~~

~~(b) Significant enough to encourage banks to locate in an underserved community or develop new products and services within existing branches but small enough that a branch’s financial success requires services to the community.~~

~~(c) Require reauthorization every two years.~~

~~40006. Upon designation of a banking development district by the department, the bank located within the banking development district shall be eligible for a range of incentives. The range of incentives may include, but shall not be limited to, the following:~~

~~(a) Access to interest-bearing time deposits of public funds, as deemed appropriate and approved by the department.~~

~~(b) Incentives offered by local agencies as deemed appropriate by the local agency and the Treasurer.~~

~~40007.~~
40003. The department may work with local agencies and economic development officials to ~~develop additional~~ *identify* local incentives for participating banks. These local incentives may include, but shall not be limited to, the following:

(a) Local agency deposits.

(b) Local agencies may help banks locate suitable commercial space for branches and may provide real estate assistance.

(c) Local tax incentives. Banks may be eligible for additional incentives if a banking development district overlaps with an enterprise zone.

(d) Workforce development. Customized training may be developed for tellers, back-office or administrative staff, information technology, security, and other select job categories.

~~40008.~~
40004. The department shall adopt rules and regulations for the establishment and maintenance of banking development districts, as provided for in this division.

~~40009. The department shall establish and post on its Internet Web site a performance review process to ensure that banks taking part in the Banking Development District Program are meeting their goals and initiatives and that their services are having a recognizable impact on underserved communities.~~

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